

# facts

*conectiv*

## CONNECTIV TOTAL REWARDS PROGRAM FINALIZED

During the last several weeks, details of Conectiv's Total Rewards Program for management have been finalized. The new program will cover all Conectiv management employees. Coverage for union employees is subject to collective bargaining.

Over the next few weeks, you'll learn the details of the program and the benefit options available to you. You've already received two newsletters giving some background information about the new pension and flexible benefits plans. With this issue of *facts* and the next one, we'll explain more about the program and the decisions you'll be making soon.

In May, you will each receive a personalized "decision kit" that will help you make your flexible benefit elections. We'll also hold group meetings and provide a hotline to answer your questions. (For more on the communications schedule, see the back cover.) Your *Conectiv Flex* benefits will start July 1.

## YOUR PAY

Pay is, of course, an important element in the Total Rewards Program. Conectiv has made sure that our *base pay levels are competitive* with what is being paid for similar jobs in general industry in the areas in which we operate. Each employee will be informed about his or her "competitive base opportunity"—that is, the potential base salary for the job over time, given sustained solid individual performance.

In addition, all employees not participating in management or business unit variable pay plans will participate in Conectiv's *Variable Pay Opportunity*—our new plan that replaces the former DPL (CPIP) and AE (Corporate Bonus) profit sharing plans. Annual payouts will be based on how well Conectiv as a whole and individual business units achieve pre-established financial goals.

## NEW CASH BALANCE PENSION PLAN

Until now, employees of both DPL and AE have been covered by what are known as "final pay" pension plans. The "cash balance" pension plan is a new concept that has two important advantages: it's *easier to understand* than the former plans, and it's totally *"portable."* Both these features support our goal of designing a benefits package that meets the needs of today's more independent, more mobile workforce.

The new cash balance pension plan will take effect January 1, 1999.

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### Conversion to the New Pension Plan

The new cash balance pension plan will cover all Conectiv employees\* as of January 1, 1999. Benefits already earned under the former DPL and AE pension plans are *fully protected*, and will be converted to an equivalent cash amount. This will form your "starting balance" under the new plan.

Your starting balance will, in essence, provide you with the lump sum amount you would need today to purchase a lifetime annuity equal to the benefit you've earned to date under your DPL or AE pension plan. The conversion formula will take into account any *early retirement* and survivor benefits which are part of the current plans.

Later this year, you'll receive a personalized pension statement showing your lump sum "starting balance" under the new plan.

### Transition Credits with Ten or More Years' Service

If you have completed between ten and 35 years of service with DPL or AE as of January 1, 1999, you will also be eligible for annual *transition credits*. This means the company will contribute an *additional* amount to your pension account *each year*. Your transition credit percentage depends on your completed service as of January 1, 1999, and remains constant until you have completed 35 years of service. At that point, transition credits stop.

Annual Transition Credit			
Service as of 1/1/99	Transition Credit (% of Pay)	Service as of 1/1/99	Transition Credit (% of Pay)
10 to 11 years	1%	16 to 19	3%
12 to 15 years	2%	20 years or more	4%

For example, if you have completed 13 years of service as of January 1, 1999, the company will make an additional contribution of 2% of your total pay to your account every year until you complete 35 years of service.

### Annual Statements

Each year, you'll receive a personal statement of your pension account which will show the company's contributions (basic amount plus any transition credits), interest credit and total balance, so you'll be able to watch the progress of your account over the years.

Benefits  
already earn  
under DPL a  
AE plans are  
fully protec

\* Subject to collective bargaining agreements.

*The new cash balance pension plan is easier to understand, and goes with you if you leave Conectiv after you're vested.*

### Benefit Easier to Understand

The way the new pension plan works is simple. Each year the company makes a cash contribution equal to a percentage of your total pay, including overtime and bonus, to your individual pension account. Throughout your Conectiv career, your account grows through additional yearly company contributions, plus interest. When you retire, the current cash value of your account is yours.

Over the years, as you watch your pension account grow, you'll have a clearer idea of your own financial position. And you'll be better able to plan for your future.

### Portability a Plus

Today, people who work for a single company throughout their careers are in the minority. So being able to transfer accumulated pension credit from one employer to the next is an important plus.

With the new cash balance plan, if you leave Conectiv after you have completed five years of service and are vested, you can transfer your pension account either to your new employer's plan or to your own IRA. Taxes are deferred on the transfer, so your full account can continue growing for the rest of your working years.

### Company Contributions and Interest

Conectiv makes all the contributions to your cash balance pension account. These contributions are based on a percentage of your *total* pay, *including* overtime and bonuses. Contributions increase with age, as shown below. You are not required to contribute to the pension plan.

Annual Company Contribution Rates			
Age*	Pension Credit (% of Pay)	Age*	Pension Credit (% of Pay)
Under 30	5%	40 to 44	8%
30 to 34	6%	45 to 49	9%
35 to 39	7%	50 and over	10%

The company also credits your account with *interest* each year based on the current 30-year U.S. Treasury bond rate. This rate changes based on economic conditions. Currently, it is 6%. Historically, it has averaged about 8%.

\* Based on your age as of January 1st; contributions are prorated if you move to a higher age bracket in mid-year.

**A Quick Look at the New "Cash Balance" Pension Plan**

Company Contributions	<ul style="list-style-type: none"> <li>• Made annually to your account based on a percentage of pay</li> <li>• Age-related percentage ranges from 5% to 10%</li> </ul>
Interest	Credited each year based on the 30-year U.S. Treasury bond rate at the time
Conversion to New Plan	<ul style="list-style-type: none"> <li>• Benefits accrued under DPL and AE pension plans to be converted to a cash equivalent starting balance under new plan</li> <li>• Starting balance also credited with interest annually (see above)</li> </ul>
Transition Credits	With 10 years of service as of 1/1/99, you receive an additional annual company contribution of 1% to 4% of pay
Vesting	Upon completion of five years of service (including service with DPL and AE)
Portability	Totally portable; current value of your account is yours if you leave Conectiv after you are vested
Survivor's Benefit	Full current value of your account is paid to your spouse or beneficiary if you die while actively employed
Payment options at retirement	Lump sum cash option or several lifetime monthly payment options (annuities); cash option can be rolled over to an IRA to continue tax deferral

**"Grandfather" Protection for Older and Long Service Employees:**

Of course, many employees have already worked for most of their careers under the former "final pay" pension plans. For this reason, two groups of people will also continue to be covered by their former plans for the next ten years. They are employees who, as of January 1, 1999:

- have completed 20 years of service, or
- are age 50 or older.

These "grandfathered" employees will have their pensions calculated under both the former and new plans, and will receive whichever value is greater.

**Payment Options at Retirement**

The new pension plan also gives you a great deal of flexibility when you retire. You may take the full value of your pension in a single lump sum, which you may then roll over, tax deferred, into the investment vehicle you select. Or you may elect guaranteed lifetime monthly payments for yourself or you and your spouse (an "annuity").

**Survivor Benefits**

The new pension plan provides another advantage in case of your death after you are vested but before retirement. Under the former plans, survivor benefits were payable only to a spouse, and then in an amount equal to about half of your accrued benefit. With the new plan, the *entire cash value* of your pension account would be paid to your beneficiary who, with your spouse's consent, can be anyone you name.

## 401(K) SAVINGS PLAN

The 401(k) plan, with its automatic, tax-deferred saving feature, company match and investment options, has become an important part of the retirement benefits package at both DPL and AE. Today, many employees are building a strong financial future for themselves by participating actively in these plans.

Conectiv will also sponsor a 401(k) plan that blends features from both prior plans.

### Company Match and Savings Options

Beginning July 1, the Company will match 50% of the first 6% of pay that you save, in the form of Conectiv stock. Making the match in stock helps reinforce one of Conectiv's key goals for our Total Rewards Program—linking employees' interests with the Company's business success. In other words, the better we do financially, as reflected in Conectiv's stock price, the better you will do, too.

You may contribute a total of up to 20% of pay to the plan—up to 15% on a before-tax basis and up to 5% on an after-tax basis.

### New Investment Choices

The new 401(k) plan will offer a broader range of investment choices than either the DPL or AE plans. The Vanguard Group, one of the country's largest and most respected mutual fund companies, will be responsible for maintaining account records as well as managing most of the investment funds.

Investment options will include both fixed income and diversified stock funds. In addition, you will have the choice of investing your account in one of two "LifeStrategy" funds that automatically apportion your account among several different funds according to your investment goals.

*Under the new  
401k plan,  
Conectiv will  
match 50% of  
the first 6% of  
pay you save.*

#### New 401(k) Investment Options

Stock Funds	LifeStrategy Funds
• Vanguard Index Trust – 500 Portfolio*	• Vanguard LifeStrategy Portfolio – Growth Portfolio
• T. Rowe Price International Stock	• Vanguard LifeStrategy Portfolios – Moderate Growth Portfolio
• Baron Asset Fund	Fixed Income Funds
• Vanguard/PRIMECAP	• Vanguard Bond Index Fund – Total Bond Market Portfolio
• Vanguard/Windsor II	• Vanguard Retirement Savings Trust
• Vanguard Growth & Income Portfolio	

Later this spring you'll have the opportunity to learn more about the new investment funds. In August, Vanguard will automatically transfer your investment in current plan funds to comparable new funds, with no tax liability at transfer. You will then be free to make any investment changes you want.

\*"Standard & Poor's 500," "S&P 500®," "Standard & Poor's®," "S&P®," and "500" are trademarks of the McGraw-Hill Companies, Inc.

*Conectiv Flex  
lets YOU choose  
the benefits  
that are right  
for you . . .*

### **CONECTIV FLEX**

*Conectiv Flex*, our new flexible benefits program, goes into effect July 1, 1998. *Conectiv Flex* lets you choose the benefits that are right for you from among a broad variety of options. Highlights of your *Conectiv Flex* program follow. You'll receive more details about the program in the next few weeks.

#### ***Conectiv Flex Means Advantages for You***

With *Conectiv Flex*, you choose the benefits you want each year, and you can change your benefits annually, as your needs change. In this way, Conectiv can be sure it is making the wisest use of the dollars it sets aside each year to pay for benefits. *Conectiv Flex* offers:

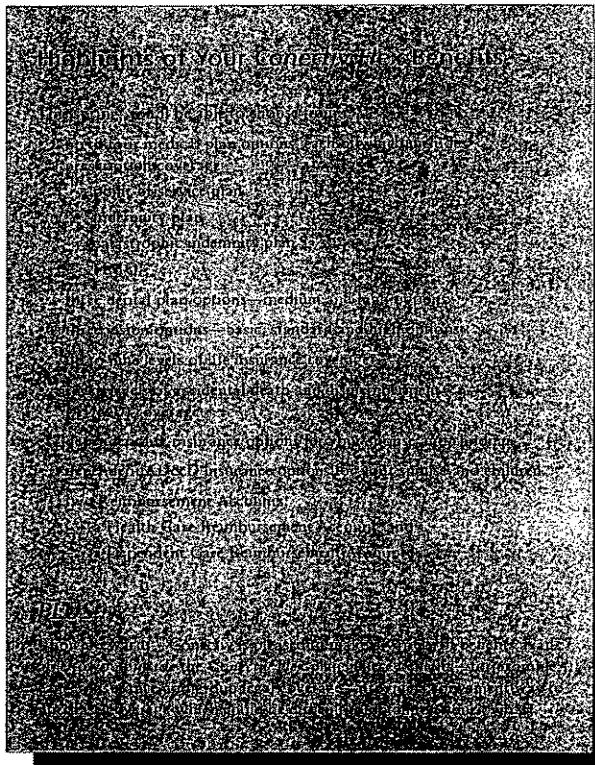
- *A range of benefits* from which to choose (see *Highlights...*, right)
- *Cash back*—Conectiv pays the major portion of the cost of coverage under *Conectiv Flex*. Each benefit option has a price tag, depending on the type and level of benefit you choose. If the benefits you choose cost *more* than the amount Conectiv pays, you pay the difference through payroll deduction—usually on a *before-tax* basis. If the benefits you choose cost *less* than the amount Conectiv pays, you will receive extra dollars in your paycheck as taxable cash.
- *Tax advantages*—With *Conectiv Flex*, you get the advantage of tax breaks permitted by law. For example, amounts you pay toward health care coverage are deducted from your pay on a *before-tax* basis. And, when you participate in a Health Care or a Dependent Care Reimbursement Account, you pay no federal or Social Security taxes on the dollars that go into your account(s) or on the dollars that are reimbursed to you.

#### **FlexPhone Telephone Enrollment**

In May, you'll be able to enroll for your *Conectiv Flex* benefits for July 1998-July 1999 using any touch tone phone and the personalized enrollment fact sheet that you will receive.

The FlexPhone system is quick and easy. It ensures privacy and confidentiality using your own Personal Identification Number (PIN). Complete instructions for enrolling by phone will be included with the *Conectiv Flex* decision kit that you'll receive in May.

*Watch for the next issue of  
facts to learn more  
about your *Conectiv Flex*  
benefit options.*



*You'll be able  
to enroll for  
Flex using the  
FlexPhone  
system.*

This newsletter covers only the highlights of your Conectiv Total Rewards Program. Details of the plans are contained in the official plan documents. In the case of questions, the documents always govern.

FlexPhone . . .  
a quick and  
easy way to  
enroll.

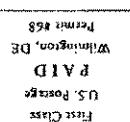
### TOTAL REWARDS COMMUNICATION PLAN

This schedule will give you an idea of what you can expect to hear about the new Total Rewards Program between now and the July 1 effective date.

- 3rd *facts* newsletter (this one) ..... April-May
- 4th *facts* newsletter (more details on flexible benefits—medical, dental, life insurance and reimbursement accounts) ..... April-May
- 5th *facts* newsletter (more information on the new 401(k) plan) ..... May-June
- "Decision Kits" mailed to you ..... Mid-May
- Employee meetings and benefits hotline ..... April-May
- Enrollment period for flexible benefits ..... Mid-May to June 1
- Flex benefits effective date ..... July 1

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**CERTIFICATE OF SERVICE**

I, Matthew A. Kaplan, hereby certify that on September 18, 2007, a true and correct copy of Appendix to Defendants' Answering Brief in Opposition to Plaintiffs' Motion to Continue Pursuant to Fed. R. Civ. P. 56(F) or for a Preclusion Order was served upon the following via CM/ECF:

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